

Message Text

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ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 SS-15 L-02 H-02 NSC-05 AID-05

CEA-01 CIAE-00 COME-00 EB-07 EA-06 FRB-03 INR-07

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FM AMEMBASSY HELSINKI

TO SECSTATE WASHDC 8610

INFO USMISSION OECD PARIS

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E.O. 11652: N/A

TAGS: ETRD, FI

SUBJECT: FINNISH IMPORT DEPOSIT SCHEME

REF: OECD PARIS 11090

1. FINNISH EXPLANATION AT OECD WORKING PARTY MEETING
SEEMS MORE POSITIVE ABOUT FUNDAMENTAL CHANGES TAKING
HOLD AND EXPORT DEMAND GROWING THAN OUR OBSERVATIONS
WOULD WARRANT. MOST FINNS TO WHOME WE HAVE TALKED
CONSIDER THAT EXPORT DEMAND STILL FLABBY AND LITTLE
EVIDENCE YET THAT FINNISH GOVERNMENT HAS FOUND MEASURES
WHICH REALLY STRIKE AT FUNDAMENTAL CAUSES FOR TRADE
IMBALANCE. FACT THAT FINLAND CURRENTLY FACING
COLLAPSE OF COALITION GOVERNMENT AND NEW PARLIAMENTARY
ELECTIONS COMPLICATES TASK OF ADOPTING DIFFICULT
DECISIONS. LATEST FIGURES SUGGEST IMPORT DEPOSIT
SCHEME HAS REDUCED TRADE DEFICIT FROM HIGH LEVEL OF
JAN-FEB 1975, BUT DEFICIT SEEMS STILL
UNACCEPTABLY HIGH.

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2. GOVERNMENT EFFORTS TO CUT GOVERNMENT SPENDING FOR SUCH ITEMS AS SCHOOL REFORM AND HOSPITAL CONSTRUCTION HAVE NOT BEEN FAR REACHING OR UNIVERSALLY ACCEPTED. MINISTER OF FINANCE STATED IN PARLIAMENT APRIL 29 THAT A TOUGH PROGRAM TO FURTHER REDUCE STATE EXPENDITURE WAS BEING PREPARED. TOUGH PROGRAM WILL, HOWEVER, CUT EXPENDITURE BY ONLY 150 MILLION FINNMARKS WHICH SEEMS SMALL IN COMPARISON WITH TRADE IMBALANCE LAST YEAR OF JUST UNDER 5 BILLION FINNMARKS.

3. MEASURES TO REDUCE STATE EXPENDITURE HAVE BEEN ATTACKED BY THE COMMUNISTS, ONE OF THE TWO MAJOR PARTIES OUTSIDE THE GOVERNING COALITION, AS WELL AS BY TWO OF THE SMALLER PARTIES WITHIN THE GOVERNING COALITION. A SHORT TEACHERS STRIKE WAS CALLED TO PROTEST PLANS TO SLOW DOWN SCHOOL REFORM, AND GOV WAS FORCED BACKTRACK TO SOME EXTENT. SDP MINISTER OF FOREIGN TRADE LAINE HAS CHARGED PUBLICLY THAT "BOURGEOIS-ORIENTED" POLICIES OF BANK OF FINLAND AND CENTER PARTY-RUN MINISTRY OF FINANCE ARE USHERING COUNTRY INTO DEPRESSION AND LARGE-SCALE UNEMPLOYMENT.

4. PART OF THE PROBLEM OF THIS OR ANY COALITION GOVERNMENT IS OF COURSE THAT EACH PARTICIPATING PARTNER MUST CONVINCE THE PARTY MEMBERSHIP THAT THEIR INTERESTS HAVE BEEN PROTECTED, THAT THEY HAVE RECEIVED AT LEAST THEIR SHARE OF THE PIE. THIS IS ESPECIALLY TRUE IN CASE OF SOCIAL DEMOCRATS AND CENTER PARTY WHO REPRESENT DIAMETRICALLY OPPOSED SEGMENTS OF SOCIETY. THE NATURAL COMPETITION BETWEEN THE TWO HAS BEEN FURTHER EXACERBATED BY EXPECTATIONS OF EARLY ELECTIONS AND JOCKEYING FOR POSITION BY SEVERAL PRESIDENTIAL HOPEFULS. CENTER PARTY FOREIGN MINISTER KARJALAINEN HAS SHOWN HIS AVERSION TO SOCIAL DEMOCRATIC ECONOMIC POLICY BY ABSENTING HIMSELF FROM CABINET MEETINGS WHEN TOUGH ECONOMIC QUESTIONS UNDER DISCUSSION AND CRITICIZING THAT POLICY IN PUBLIC.

5. THE FINNISH GOVERNMENT AND TRADE UNIONS HAVE STAYED AWAY FROM LINKING THE RECENT INFLATIONARY LIMITED OFFICIAL USE

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CENTRALIZED WAGE SETTLEMENT WITH THE BALANCE OF PAYMENTS PROBLEMS. THE EXPECTATION HAS BEEN BUILT INTO THE FINNISH CONSCIOUSNESS THAT WAGE SETTLEMENTS SHOULD PROVIDE FOR INCREASES SEVERAL PERCENT LARGER THAN EXPECTED INFLATION. IT IS A MARK OF RESPONSIBLE TRADE UNIONISM TO ACCEPT LIMITING THE IMPROVEMENT OF LIVING STANDARDS TO LEVEL OF ONLY ONE OR TWO PERCENT A YEAR. RARE IS THE POLITICAL FIGURE WHO WILL

SAY THAT A STANDSTILL IN IMPROVEMENT OF LIVING
STANDARDS IS WHAT FINLAND NEEDS.

6 GOVERNOR MAUNO KOIVISTO OF BANK OF FINLAND,
DURING CALL MARCH 5 BY AMBASSADOR, SAID IMPORT DEPOSIT
SCHEME WOULD SERVE TO REDUCE IMPORT LEVEL SOMEWHAT,
ALTHOUGH STATISTICS ON THIS NOT YET AVAILABLE.
IMPORTANT SIDE EFFECT WOULD BE SOPPING UP MONEY AND
FURTHER TIGHTENING CREDIT SITUATION IN FINLAND.
HE ADMITTED THAT MAY IMPORTERS WERE RECEIVING
SUPPLIERS' CREDIT UP TO SIX MONTHS AND THAT BANK OF
FINLAND HAD NO OBJECTION TO SUCH CREDITS. HE PREDICTED
THAT THANKS TO SUCH CREDITS FINNISH FOREIGN EXCHANGE
RESERVES WOULD SOON SHOW A MODERATE RISE DESPITE CON-
TINUED LARGE FOREIGN TRADE DEFICIT FINNMARKS
4-5 MILLION THIS YEAR. HE SAID THAT LONGER TERM
SUPPLIERS' CREDITS WOULD HAVE TO BE REPAID LATER BUT
THAT MEANWHILE GOVERNMENT HAD GAINED NECESSARY
BREATHING SPACE TO IMPLEMENT OTHER MEASURES TO DEAL
WITH TRADE DEFICIT, MAY OF WHICH WILL BE IMBODIED IN
1976 BUDGET, TO BE ANNOUNCED IN MID-SUMMER.
HE SUGGESTED THAT THE MAJOR STEPS TO BE TAKEN WERE
CUTTING BACK ON INVESTMENT TO ABOUT 20 PERCENT OF
GNP (AND ACCEPTING SLOWER RATE OF GROWTH AND
INCREASE IN UNEMPLOYMENT TO 3 OR 3 1/2), AND HOLDING
THE GROWTH OF GOVERNMENT EXPENDITURE TO ONLY 2 OR
3 PERCENT PER YEAR IN REAL TERMS.

7. FOR THE MOMENT, NO MEASURES TO COPE WITH FINNISH
TRADE IMBALANCE ARE VISIBLE OTHER THAN GOVERNMENT
SPENDING REDUCTIONS, CREDIT TIGHTENING AND THE IMPORT
DEPOSIT SCHEME WHICH THE FINNS ADMIT CAN BE VITIATED
BY INCREASED USE OF SUPPLIER CREDITS. MOST OF OUR
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CONTACTS EXPECT THESE MEASURES WILL NOT BE ENOUGH.
AUSTAD

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